



Phaunos Timber Fund Limited - PTF Company Update
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Phaunos Timber Fund Limited
25 July 2017

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("Phaunos" or the "Company")

25 July 2017

Company Update

Further to the Company's update announcements on 3 July 2017 and 10 July 2017, the Board wishes to provide the following progress report.

Board succession plan

The Company has announced today that Brendan Hawthorne will join the Board. Brendan is a managing director at Duff & Phelps, a global valuations and corporate recovery firm.

Brendan has more than 20 years' experience as a specialist in financial investigations and asset recovery. He has extensive multi-jurisdictional experience including having been a director of, or professional advisor to the investors in, several substantial hedge funds.

As announced on 3 July 2017, professional search agents have been engaged with a mandate to recruit a replacement Chairman and two replacement Non-Executive Directors, with appropriate skills, in addition to Mr Hawthorne. The search agents are making good progress and further announcements will follow in due course. It is expected that a new Chairman will be appointed during August 2017.

The current directors will render all assistance to their replacements and to the Company in ensuring an orderly hand over and to protect the best interests of shareholders.

Management of the Company's assets

Further to the announcement made on 10 July 2017, the Board would like to give an update in relation to the management of the Company's assets following the intended resignation of Stafford Capital Partners ("Stafford") as the Company's investment manager.

Following the vote by shareholders for the Company not to continue for a further five years, subject to approval by shareholders, Phaunos' assets will be realised in an orderly way. A principal reason for Stafford's resignation is that their business is to build and manage funds for the longer term; they are not dissolution specialists. The assets will therefore be realised using third-party sales agents, as has been the case with previous asset sales from the Phaunos portfolio. Consequently the new Board will need to decide whether a new manager is required as part of the process to maximise the sale value of the Company's remaining assets.

Until their notice period expires, Stafford, in conjunction with the Board, will oversee the selection process of sales agents. They will also continue their involvement in the day-to-day management of the Company's assets. By offering that their six month notice period run from the day on which shareholders consider the change to the Company's investment policy to allow the managed wind-down process, expected to be in August 2017, rather than a month earlier when they notified the Board of their intention to resign, they will be able to assist the new Board in the preparation of the annual accounts for the year to 31 December 2017.

Lapse of warrants

The Management Fee agreed on the appointment of Stafford in 2014, to manage the Company's assets was composed of two elements: (i) a Base Fee of 0.35% per annum of the Company's Market Capitalisation (calculated by taking the average of the buy price at the close of business on each Business Day in the relevant quarter). These fees were unusually low for the management of a global timber fund and reflected Stafford's and the Board's concern over the low level of cash to support the Company's operations at that time and (ii) an issue of warrants to allow Stafford to subscribe to shares at fixed prices and to benefit from an uplift in Phaunos' share price.

As set out on page 33 of the Annual Report for the year to 31 December 2016, in the event of the Company's continuation resolution not being passed, the rights relating to the warrants lapse and in compensation an Increased Base Fee becomes payable retrospectively to bring Stafford's aggregate Management Fee, since appointment, to 1% per annum of the Company's Market Capitalisation. These terms were also set out in the 2014 capital raise document and were approved by shareholders.

The compensatory uplift of 0.65% per annum for the period from 1 July 2014 to 19 June 2017 (the date the continuation vote was not passed), both dates inclusive, results in a payment to Stafford of \$4.38 million. Partly offsetting this is the release of the warrant instrument reserve, which stood at \$2.7 million as at 31 Dec 2016, which is no longer required due to the cancellation of the warrants.

All other liquidation payments, which Stafford might have received, have been forfeited as a consequence of Stafford's resignation.

Next steps

The process of selecting and appointing sales agents is in progress. At this stage the Board and Stafford both consider that the best way to realise shareholder value is to appoint a single lead sales agent for the sale of all of the Company's assets. The sale process will include seeking offers for

all of the portfolio as well as for any individual asset or group of assets. This flexibility is considered to be the most efficient way to maximise the value of the portfolio. As stated in an announcement on 3 July 2017, the objective of the sales process will be to maximise overall returns to shareholders, taking into account the ability of potential buyers to complete transactions in a timely manner.

This sales process will require a change to the Company's investment objective and policy and it is intended that an EGM will be convened before the end of August to seek shareholder approval for this, as well as to seek approval for the appointment of Brendan Hawthorne and the necessary amendments to the Company's Articles to permit the periodic returns of capital. The Company expects to publish a circular shortly in connection with this and will provide a further update in due course.

The Company has distributable cash of approximately \$10 million, in excess of revised projections of costs, that is available in Guernsey or capable of being repatriated to Guernsey. This amount will form the basis of the Company's first distribution of capital. Therefore, following the amendment to the Company's Articles of Incorporation to be considered by shareholders at the EGM as set out above, a first payment is expected to be made by means of a compulsory redemption of shares pro rata to shareholders' holdings as soon as practicable thereafter.

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Notes to Editors

Established in 2006, Phaunos Timber Fund Limited ("PTF" or "the Company") invests in a concentrated, but diversified portfolio of timberland and timber-related investments.

PTF is a Guernsey-domiciled authorised closed-ended investment scheme, authorised by the Guernsey Financial Services Commission under section 8 of The Protection of Investors (Bailiwick of Guernsey) Law, 1987 (as amended) and the Authorised Closed-ended Investment Schemes Rules 2008 made thereunder. The Company's ordinary shares are traded on the Main Market of the London Stock Exchange. www.phaunostimber.com

It was announced on 19 June 2017 that the Company's continuation resolution had not been passed. The Board has stated that it will put forward proposals to commence the process for an orderly realisation of the assets of the Company.

The Company's ticker is PTF. www.phaunostimber.com

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